



UNAPPROVED

Minutes of the Commission Meeting

Room 412, Capitol Building

June 2 and 3, 2016

Chairman Turbiville called the June 2, 2016 meeting of the South Dakota Lottery Commission to order at 9:00 a.m.

MEMBERS PRESENT: Chuck Turbiville, Jim Putnam, Bob Hartford, Roger Novotny, Brent Dykstra, and Doyle Estes were present.

SUPPORT STAFF PRESENT: Andy Gerlach, David Wiest, Norm Lingle, Clark Hepper, Joe Willingham, Sherry Lauseng, Kelly Thompson, Andrew Fergel, and Jennifer Baker.

APPROVAL OF THE AGENDA

Commissioner Hartford moved that the agenda be approved. Commissioner Novotny seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

APPROVAL OF THE MINUTES FROM April 7, 2016, MEETING

Commissioner Hartford moved that the minutes be approved. Commissioner Dykstra seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Lingle briefed commissioners on a letter, mailed on April 29 to operators and establishments and emailed to law enforcement, regarding the smoking ban. After receiving several phone calls, Lingle felt the terminology used needed to be clarified to reduce confusion over what constitutes a retail tobacco store vs a smoke shack. In a retail tobacco store 65% of income needs to come from the sale of tobacco products and accessories and no alcohol is served. A smoke shack is an area built by a bar or restaurant where a person can have tobacco products and be protected from the elements, but the area cannot be fully enclosed. The definition of an enclosed area is any space between a floor and ceiling that is enclosed on all sides, exclusive of doorways, by permanent or temporary walls or windows. The Lottery will look to local building officials to make the determination of what an enclosed area is. Most of the questions stemming from the letter were regarding the difference between a retail tobacco store and a smoke shack. Lingle stated that video lottery machines cannot be placed in an area where alcohol is not dispensed and consumed on a regular basis, but may be placed in a smoke shack.

Lingle updated the commissioners on the two operators referenced during the April meeting by City of Sioux Falls Attorney Keith Allenstein, stating that video lottery machines had been removed from retail tobacco stores and they are now in compliance with state law.

Commissioner Novotny asked if liquor can be served in a smoke shack. Lingle answered that liquor can be served if the smoke shack is defined as part of the alcohol license.

Commissioner Dykstra wondered if a smoke shack was inside or outside the walls of the establishment. Lingle stated that they are an addition to the establishment that is not fully enclosed to accommodate smokers. Dykstra next asked if the machines were exposed to the elements. Lingle responded that machines could be exposed, but there is no current law prohibiting that. It is up to the establishment owner to decide whether to expose their machines to the elements. Dykstra then asked if a video lottery machine can be placed in an establishment that sells tobacco and alcohol. Lingle replied they could if the business is defined as a bar that requires smokers to go outside. A retail tobacco store allows patrons to smoke inside the establishment itself.

VIDEO LOTTERY REPORT

Assistant Deputy Director Clark Hepper reported on the following:

Hepper reported the video lottery establishment count at 1,345 which is 33 less than the previous year. The terminal count was 8,925, 22 less than the previous year. This meant Lottery generated 4.48% more net machine income (NMI) with fewer establishments and terminals in the field.

NMI has been following the same revenue trend for the last three years. Week over week NMI shows more volatility, but follows the same trend over the same three year period. Fiscal year 2016 (FY16) NMI started at 5.44% higher than the same time in FY15. The year over year NMI average was 4.48% with its high point the week of July 27 at 7.08% and the low point at 4.07% the week of Feb. 22.

The estimated State share of video lottery revenue for 2016 was \$103.25 million compared to \$98.29 million in 2015 - an increase of almost \$5 million.

Commissioner Estes asked when the new advertising campaign started. Lingle answered that advertising was paused to invest time in research and a new brand and image campaign. Nothing had been done regarding advertising for video lottery.

Estes wondered if the NMI increase was due in part to the increased number of new machines. Hepper replied in the affirmative. Estes asked if the new machines were continuing to grow revenue. Hepper replied that they were, but at a slower rate.

PURCHASE OF MULTI-CHANNEL CONNECTIVITY DEVICES (MCDs)

Assistant Deputy Director Clark Hepper reported on the following:

Multi-channel connectivity devices (MCDs) are used in establishments that offer SAS protocol machines. As of the meeting date, the Lottery had purchased 1,000 MCDs for use in establishments. There were around 880 MCDs active on the system out of the 1,345 establishments - 42 MCDs were being repaired by Scientific Games International (SGI) - 78 were in inventory with operators statewide.

The Lottery requested the Commission's approval to purchase an additional 100 MCDs from SGI at \$525.80 per device to equal a cost of \$52,580. This would bring the total number of MCDs purchased by Lottery to 1,100 at a total cost of \$578,380, leaving around 250 establishments without MCDs, but not all establishments are expected to need them.

Commissioner Hartford wondered if Lottery was paying for the repair of MCDs. Hepper stated that Lottery was paying a reduced price to have them repaired.

Commissioner Estes moved that the purchase of 100 MCDs be approved. Commissioner Putnam seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

PUBLIC RELATIONS/ADVERTISING REPORT

Director of Advertising and Public Relations Kelly Thompson reported on the following:

Big Winners Claimed (since 4/7/16)

LOTTO GAMES

There have been two Dakota Cash jackpot winners since the last meeting. Travis Carrico of Watertown won \$35,658 on May 4, 2016, and James Hamler of Canton won \$25,146 on May 25, 2016.

There were three non-jackpot high winners, two were Hot Lotto with Sizzler winners of \$9,000 - one from Castlewood, the other from North Sioux City; the other win was a \$50,000 Powerball ticket sold in Alexandria.

INSTANT GAMES

There were 10 top prize winners of \$5,000 - \$45,000 since April 7, 2016, in 8 different games.

Play it Again Mini Drawings

Three Play It Again Summer Sizzle mini drawings have been held so far, with the next one on June 24, 2016. The mini drawings have been helping to keep interest high in the promotion – as of May 31 there were about 98,200 entries. The \$30,000 grand prize drawing is Aug. 26, 2016, and mini drawing winners are still eligible for the grand prize.

Website Redesign

The Lottery is on track to go live with Phase 1 of the new site on Aug. 8 with the 25 most important pages. Website mock-ups were approved on May 20. The layout uses the colors of the new logo (orange, black, grey, white) and artwork that mimics the retro look used in the branding campaign. Web copy was approved for Phases 1, 2 and 3 of the site redesign and Lawrence & Schiller is working with BIT on programming.

Sioux Falls Ribbon Cutting/Open House

Thursday, June 16 the Lottery will be celebrating the new Sioux Falls office and familiarizing the public with its new location. There will be a ribbon cutting ceremony at 10:00 a.m., a public open house/spin 'n win from noon – 3:00 p.m., and public tours of the facility from 12:30 – 2:30 p.m. The public can participate in prize drawings, scratch ticket specials, and spin the wheel to win Lottery gear and other prizes.

The DOR Employee Appreciation Lunch is being held in conjunction with the open house. Building tours will be held from 10:30 a.m. to 11:00 a.m. with lunch at 11 a.m.

There will be a marketing meeting with Lawrence & Schiller June 22 in Sioux Falls to discuss the road map for next year, consider what worked and didn't work this year, and to decide which programs to promote in the next fiscal year.

SALES REPORT

Sales Director Joe Willingham reported on the following:

INSTANT GAMES were up .77%, at \$22.65 million versus \$22.47 million, with Lucky 13 and Two for the Money coming out in early July, and Grand 7s and Pure Gold making their debut in early August.

LOTTO GAMES were up 15.5%, at \$26.7 million versus \$23.1 million the previous year - carried by the big Powerball run in January.

GAME BY GAME as of April 30, 2016

- Powerball was up 47.5%, with \$18.3 million versus \$12.4 million the previous year.
- Mega Millions was down 13.1%, with \$2.97 million versus \$3.42 million the previous year.
- Hot Lotto was down 19.5%, with \$2.47 million versus \$3.07 million the previous year.
- Dakota Cash was down 13%, with \$1.96 million versus \$2.09 million the previous year.

- Wild Card was down 2.3%, with \$1.27 million versus \$1.30 million the previous year after the final draw.

DAKOTA CASH WITH EZ MATCH OPTION

The EZ Match option will be added to Dakota Cash in late July or early August. Testing will begin in a couple of weeks.

REVENUE PROJECTIONS

- Instant - \$5.41 million
- Lotto - \$8.79 million
- Video - \$103.25 million
- Total - \$117.45 million

IGT TECHNOLOGY SECURITY

Shawn Yetter, Director of Data Center Operations at International Gaming Technologies (IGT) reported on the following:

Yetter walked the Commissioners through terminal and network transaction flow and security.

TRANSACTION FLOW OVERVIEW

The transaction starts at the retailer's terminal, goes through wide area network (WAN), then to a front end processor with a primary and backup data center and finally to the host.

TERMINAL SECURITY

- Physical and logical identification – both must match before the terminal can talk to the host or network
- Retailer identification and password control – must have a retailer ID and password
- Software version control – another layer of security
- Gguard – a proprietary security measure used by Lottery security and on the ticket itself
- ROM Configuration – a layer of security at the terminal
- Encryption – on every transaction

NETWORK OVERVIEW

From the terminal there are multiple types of communication, but lottery retailers in South Dakota are mostly using VSAT. All transactions go through an MPLS, which is a type of dedicated backbone only used for IGT traffic, then through a satellite environment which is communicating to the front end processor and the host.

NETWORK SECURITY

- Proprietary protocol between terminal and front end processor – ESConnect protocol
- Encryption all the way through
- Private MPLS backbone – no other public traffic is run across this backbone
- Virtual IP's – a set of IPs dedicated to Lottery retailers with a dedicated range you must be within to communicate
- Firewalls with access and configuration control and notifications if changes are made
- Intrusion Prevention System (IPS) – consistently evaluated and updated patch management

ADDITIONAL SECURITY MEASURES

- Front End Processor (ESConnect) with security check points like the terminal software version and verification of terminal ID's
- Ticket Security – ticket paper or roll stock with serial numbers to track where the ticket was printed and what was printed
- Gguard Process – to validate high winning tickets
- System Security
 - Patch Management – keep systems up-to-date
 - Terminal/Teller verification
 - Transaction logging – every transaction has its own identifier
 - Operator menus

- Operating system logging – all activities are logged and reviewed
- Internal/External Serial Numbers
- Checksums – performed by each product on the system to ensure there are no mismatches.
- Checkpoints
- Physical Security – facial recognition and a badge are required to enter the area where the systems are located
- Personal Security – only people working on South Dakota Lottery's system have access and they have been approved by the Lottery
- Logical Access Security
- Process Security
 - ISO Certifications
 - Security Plans
 - Audits (SOC1, MUSL, Internal)
 - Log Reviews – monthly or quarterly reviews
 - Network Reviews
 - Site to Site Failover testing – ensure primary and backup failovers are performing optimally

Commissioner Estes wondered if all employees working for IGT on South Dakota Lottery's system were approved by the Lottery and what the approval process consisted of. Lingle responded that Lottery does a criminal background check on all vendor and Lottery employees as well as a credit history check. Estes asked who performed the background checks. Lingle replied that the Department of Criminal Investigation (DCI) performed criminal background checks and a credit bureau performs the credit history check.

Yetter mentioned that though the terminology is confusing, the main point is that there is layer upon layer upon layer of security – the brick and mortar layer, people layer, technology layer, information security layer - protecting from the outside in and the inside out.

Novotny inquired about the kind of testing done. Yetter replied that site to site failover testing between the primary and backup as well as the primary and secondary systems were conducted. There is a customer acceptance test environment where software is verified and a question and answer environment to ensure the integrity of not only the software, but also the environment before it's applied to production. Code reviews and content reviews are done before production as well. Every team member must be confident in the change before it is put into production, so testing is a critical component of every modification.

Commissioner Dykstra asked if there was a third party intrusion test performed to ensure there is not a way to compromise the system. Yetter responded that a number of security tests are performed by outside parties to test the ability to penetrate the system.

Lingle stated that Lottery is working with the Bureau of Information and Technology (BIT) to do some intrusion protection/penetration testing within the next six weeks. The Lottery is getting prepped for the SOC1 audit on the IGT side of the process and in August there will be a MUSL Rule 2 review of the system to ensure all requirements on the IT and physical side needed to sell lotto games are met. The MUSL Rule 2 review occurs every other year.

CONFLICT OF INTEREST

Department of Revenue Lawyer, Andrew Fergel reported on the following:

Fergel reported on [HB 1214](#) which was passed during the 2016 Legislative Session and is an act to regulate conflict of interest for 22 named boards, commissions, and authorities. HB 1214 applies to current and former board members, and is not retroactive to board members not serving as of July 1, 2016.

Board members cannot contract with or derive direct benefit from a contract with the State related to the subject matter of the board. HB 1214 defines direct benefit as having a five percent interest in the entity contracting with the State; or deriving income compensation or commission directly from the contract or from a party to the contract; or

acquiring property under the contract; or serving on a board of directors that derives income or commission from the contract.

HB 1214 does not supplant existing prohibitions applicable to Lottery Commission members in SDCL 42-7A-27, 28, and 29. Fergel then went on to read [SDCL 42-7A-27](#) and to point out that it is broader than HB 1214. He then read [SDCL 42-7A-28](#), saying it comes at conflict of interest from the other side. [SDCL 42-7A-29](#) also needs to be taken into consideration as well as all provisions relating to conflict of interest for State employees. HB 1214 allows for waivers, but there are no waiver provisions for conflicts in Chapter 42-7A. HB 1214 applies to former members, prohibiting them from entering contracts that pose a conflict of interest for a year after leaving the Commission.

HB 1214 will be effective on July 1, 2016 and will not apply to members who have left the Commission before that date. If a member feels they have personal business that will conflict them, they would need to resign as soon as possible because some resignations don't take effect until a replacement is made.

WAIVER REQUIREMENTS

Waiver requests must be in writing and disclosed to the Board before entering into a contract. The Board then reviews the terms of the contract to make a determination if it is fair and reasonable to allow. Board authorization must be in writing and filed with the State Auditor.

The penalty includes the charge of a class 1 misdemeanor and voiding of the contract, which could result in a loss of revenue.

Fergel advised Commissioners to err on the side of caution. He reminded them that responsibility is on each individual board member, so they should seek the advice of individual council if they are unsure of whether they will be in violation.

Commissioner Putnam asked if the punishment was a class one misdemeanor under both HB1214 and SDCL 42-7A. Fergel stated that the penalty is the same. After leaving the Commission 42-7A will not apply, but HB 1214 will apply for a year after.

Commissioner Estes wondered if Fergel could help make some decisions regarding conflict of interest. Fergel said he could give his best advice, but felt the advice of the Attorney General's office would be the best. Estes then asked if it would be the states attorney or the county attorney general that makes the decision. Fergel answered that the Attorney General's office was working on a document to send to all commission and board members as well as a decision matrix to help members decide if they have a conflict of interest. Estes stated that he is a lawyer and wondered the rule would apply if he had a client that is in the video lottery business. Fergel responded that he hoped the forms and information the Attorney General's office was working on would shed some light on such situations. He added that this isn't going away, and to expect more transparency going forward.

EZ MATCH RULES HEARING – 10:15 a.m.

Executive Director Norm Lingle reported on the following:

Lingle presented the rules for the EZ Match add-on to Dakota Cash, as well as a rule regarding notaries. 48:02:02:06 will allow applications, registration and disclosure forms that are required to be submitted to the Lottery for the purpose of determining qualifications for licensure, to be submitted using an electronic signature. This allows the information to automatically be stored into the File Director program.

EZ Match is an instant win option that can be added to a Dakota Cash ticket purchase for an extra dollar. Players have to buy the base game in order to buy the add-on. EZ Match tickets will have base game numbers as well as five additional EZ Match numbers. The player wins the prize associated with each of the EZ Match numbers that match the base game numbers. Lingle anticipates a 15% growth in Dakota Cash sales with this add-on feature.

48:03:17:01 authorizes the Lottery to offer the EZ Match instant win option in conjunction with any on-line game authorized in South Dakota. 48:03:17:02 focuses on definitions. 48:03:17:03 provides a description of how EZ Match works.

48:03:17:04 states that tickets must be purchased at authorized on-line licensed retailers. If a player chooses to play multiple tickets, each ticket with EZ Match will be printed separately and EZ Match tickets cannot be voided or cancelled. 48:03:17:05 talks about prize payment and validation. An EZ Match ticket can be cashed either before or after the associated Dakota Cash drawing. If cashed before the drawing, an exchange ticket will be printed. If cashed after, the win from EZ Match will be added to any winnings from the base game and paid in one lump sum. Winning tickets must pass validation and security checks and be paid within 180 days of the base game draw. 48:03:17:06 is the same as other online games and prohibits employees or Commissioners of the Lottery, as well as their immediate family, to participate. 48:03:17:07 states that odds will be published on the Lottery website.

Chair Turbiville opened the meeting to public testimony and there were no questions or testifiers. Turbiville then read a letter from David and Eleanor Richards of Sturgis, who were concerned about the impact the new feature would have on gambling addiction in South Dakota.

Commissioner Estes moved that the EZ Match rules be approved. Commissioner Novotny seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

EXECUTIVE SESSION PER SDCL 1-25-2 (4) TO PREPARE FOR CONTRACT NEGOTIATIONS

Commissioner Estes moved for the meeting to go into Executive Session. Commissioner Dykstra seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried. Commission went into Executive Session at 10:47 a.m.

Commissioner Putnam moved for the meeting to come out of Executive Session. Commissioner Estes seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried. Commission came out of Executive Session at 11:45 a.m.

APPROVAL TO BEGIN CONTRACT NEGOTIATIONS FOR INSTANT TICKETS AND RELATED SERVICES REQUEST FOR PROPOSAL (RFP)

Executive Director Norm Lingle reported on the following:

Commissioner Novotny moved that the contract negotiations for instant tickets and related services RFP be approved. Commissioner Hartford seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

APPROVAL TO BEGIN CONTRACT NEGOTIATIONS FOR COMPLIANCE TESTING AND CONSULTING SERVICES RFP

Executive Director Norm Lingle reported on the following:

Commissioner Dykstra moved that the contract negotiations for compliance testing and consulting services RFP be approved. Commissioner Novotny seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

APPROVAL TO BEGIN CONTRACT NEGOTIATIONS FOR VIDEO LOTTERY SECURITY STUDY RFP

Executive Director Norm Lingle reported on the following:

Commissioner Estes moved that the contract negotiations for video lottery security study RFP be approved. Commissioner Putnam seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

NEXT MEETING DATE

Lingle said the next quarterly Commission meeting would be held on September 22, but felt based on the RFP negotiations taking place, a meeting would be needed before that date.

RECESS

Chairman Turbiville recessed the meeting at 11:50 a.m.

WELCOME AND RECONVENE TO STRATEGIC PLANNING PORTION OF THE MEETING

Chairman Turbiville reconvened the June 2, 2016 meeting of the South Dakota Lottery Commission at 1:30 p.m. in the Highlands Meeting Room, RedRossa Italian Grille.

OVERVIEW OF STRATEGIC PLAN

Executive Director Norm Lingle reported on the following:

Lingle went over the current strategic plan, starting with the mission statement: To work in partnership with all stakeholders to promote and ensure the integrity, security, and honesty of lottery games, to maximize state revenues and to ensure the lottery remains a viable and sustainable source of revenue for the State of South Dakota.

GOALS AND OBJECTIVES

- Accomplished (12)
 - Mission statement
 - Eliminate bet/award ratio
 - \$50's and \$100's
 - Eliminating seating requirement
 - DSL trial/real time communications
 - Video lottery marketing
 - Agency sponsorship of legislation
 - Red tape/obsolete law review
 - Free play/match play
 - Site promotions
 - Video lottery study
 - Purchase of MCDs for SAS machines
- In Progress (5)
 - Sharing of information – COMPLETED
 - Management system
 - Real time communications
 - Progressives (focus group) – COMPLETED
 - Increase maximum bet (focus group) – COMPLETED
- Unaccomplished (Non-Legislative) (5)
 - Player loyalty/rewards programs
 - Electronic table games
 - Bar top machines – COMPLETED
 - Slot tournaments
 - G2S communication protocol
- Unaccomplished (Legislative) (8)
 - Granting Lottery Commission more authority
 - Progressive jackpots
 - Increase maximum bet and award
 - Multiple licenses in a single room

- Increase maximum number of VLT's per establishment
- State owned terminals
- Incentivize investment in new terminals
- Themed games

The goals and objectives put forth after last year's strategic planning meeting will remain the goals for the video lottery portion of the Lottery.

LOTTERY GOALS AND OBJECTIVES

Executive Director Norm Lingle reported on the following:

Lingle walked everyone through the Lottery's goals and objectives.

1. Increase the sale of instant and online tickets and video lottery net machine income by 4%.
 - a. The Sales Director will develop and implement a training program for Lottery sales representatives.
 - b. The Sales Director will develop and implement a training program for Lottery retailers.
 - c. Investigate and implement viable methods for merchandising lottery products at the retailer level.
 - d. Implement a process to use research, in house data, and focus groups to identify instant tickets, lotto and video lottery games that appeal to Lottery players.
 - e. Develop a meaningful retailer recruitment program that focuses on high traffic retailers.
 - f. Research the establishment of a Retail Advisory Board.
2. Continue to promote and maintain the sound financial position of the Lottery through fiscal integrity.
 - a. Develop an efficient and comprehensive annual budget.
 - b. Review and document internal controls to assist in yearly audit.
 - c. Implement electronic records management process to improve efficiencies.
 - d. Document workflow processes to help improve office efficiencies.
 - e. Provide financial reports to guide Lottery management in making fiscally responsible decisions.
3. Promote the South Dakota Lottery brand.
 - a. Utilize research and in-house data to develop campaigns that appeal to a larger customer base.
 - b. Ensure some faction of research be completed on a yearly basis that updates or augments previous research.
 - c. Develop and structure a comprehensive Responsible Gaming program with the goal of achieving NASPL certification.
4. Ensure Lottery systems, products, and licensees include security and integrity.
 - a. Use technology to enhance efficiencies and maximize resources to better serve the lottery partners.
 - b. Develop a workflow process to help improve office efficiencies. (*License Application, Shipment Notifications, Inspections, Renewal Process, Bill of Sale, etc.*)
 - c. Encourage professional development opportunities to increase the knowledge and productivity of employees.
 - d. Stay current on lottery systems and opportunities to enhance the player experience.
 - e. Work with stakeholders to develop best practices to improve lottery security measures.
5. Work with the South Dakota Lottery Commission and Department Of Revenue leadership to strategically position and maintain the South Dakota Lottery as a viable and sustainable source of revenue to the State of South Dakota.
 - a. Conduct an annual strategic plan meeting covering all Lottery products with the Commission.
 - b. Conduct an annual review of Lottery statutes and administrative rules to ensure good business practices.
 - c. Conduct security assessment of the Lottery.

Dan Grider, operator at Cash Inn, Inc. of Sioux Falls, wondered if a summer educational session to educate legislators about the Lottery had ever been held. Lingle responded no but everyone participated in meetings with legislators to brief them on the bill and the Lottery's position. Grider then asked if there was movement going in the direction of passing a video lottery bill. Lingle replied that some of the Legislators have a negative opinion about the Lottery and especially video lottery, and he's not sure how to move them to vote for the video lottery bill. Grider said that as an operator, the expense is getting high, and he's looking to increase max bets and add progressives. Lingle said it will take a team effort to get laws passed. Chair Turbiville added that at those meetings it was expressed that Lottery was the second largest contributor to the General Fund and employs lots of people. The legislators understood but the bill still died in committee. Some legislators stayed with the Lottery, but some who were behind the bill changed their votes. Commissioner Putnam added that many legislators didn't want to take a stand without seeing the intended bill, so copies were given out, but it's hard to know what will happen when session starts. Myths like "all the funds would go to education" keep people from believing in Lottery. Lottery is a viable business and it is their mission to keep it sustainable; if not the State could lose the second largest revenue producer next to the sales tax. A summer session might be a better option since legislators are less busy. Putnam believes owners, operators, and establishments might be able to convince legislators that action is needed. Grider responded that Lottery is a business and operators are partners with it.

VENDOR PRESENTATIONS

INTERNATIONAL GAMING TECHNOLOGY (IGT)

Nate Sullivan, Senior Manager of US Regional Marketing at IGT reported on the following:

There was a huge Powerball jackpot that drove a lot of frenzy across the industry. South Dakota's ranking during the Powerball run stayed relatively flat on a per capita sales basis, so while other states showed huge gains, South Dakota players weren't as reactive.

Sullivan gave a brief update on the current draw game portfolio, saying *Powerball* was up 47%, *Mega Millions* was down 15.2%, *Hot Lotto* was down 20.9%, *Dakota Cash* was down 7.8%, and *Wild Card* was down 29.3%. He feels Lottery should consider adding *Lucky for Life* to its online portfolio. 88% of online game sales come from Powerball, Mega Millions, and Hot Lotto combined. In-state games are important, but multi-state games are big sellers. Even though the numbers were down in all but one game, the South Dakota Lottery was still coming out ahead of the previous fiscal year.

POWERBALL

By draw 16-17, draw sales drop versus the prior two runs, suggesting a more dramatic fatigue than anticipated and no positive halo effect from the record jackpot. Changes to the game allowed the jackpot to roll up to the \$1.6 billion jackpot, but this is anticipated to happen only once every three to four years.

MEGA MILLIONS

Mega Millions continues to trend severely downward in sales by draw. What was \$37/draw in the prior 20 draw set went down to \$21/draw. If Mega Millions continues to decline and Powerball doesn't have a billion dollar jackpot next year, there could be a significant drop in revenue.

DEVELOPING NEW GAMES

IGT used a multi-step market research process to develop new gaming opportunities. They were looking at games that will appeal to a new, broader player group that is not currently playing. One example is YOUR PICK, which they're testing currently. West of Mississippi sales aren't as strong for this type of game. In this game the player chooses their own odds profile by choosing how many numbers to pick.

SALES AND RETAIL OPPORTUNITIES

In November IGT conducted a thorough review of the retail network in South Dakota to identify opportunities to increase sales by optimizing retail execution and sales force development. They started in Rapid City and worked their way across the state in two groups visiting 50 different retailers. One group went down Highway 14, and the other went along Interstate 90. From a merchandising standpoint, it's all about consistency and there was consistency across the state. They found that merchandise was well displayed, sales representatives know their retailers well, and retailers were welcoming, open, and happy with the service they received.

RECOMMENDATIONS

The South Dakota Lottery provides many of the tools and resources necessary for successful field execution, including a variety of instant ticket displays, voided tickets, 4x4 cards, jackpot signs, POS, and winner awareness. Effective use of these elements at retail stores can increase product visibility and availability, and can be used to create strong winner awareness presence. A structured "Fresh Eyes See More" project approach will fit in nicely with the rebranding initiative. Defining merchandising standards and tracking and measuring execution are key factors. Lottery sales staff is organized and has a good ratio of sales representatives to retailers. Training would be a good idea to get all staff on the same level of experience and knowledge.

TRENDS

High frequency games are quick play style games printed from the terminal and redeemable immediately by the player. They are similar to a scratch ticket in that you don't need to buy a base game to play. Price points available in United States lotteries range from \$1 to \$10 and payouts range from 65%-80%. These games would introduce a terminal style game that refreshes more often than lotto games.

Regional "For Life" games like Lucky for Life and Cash 4 Life have been highly successful right out of the gate. Cash 4 Life averages \$.13 on average in weekly per capita sales in New York and New Jersey. Lucky for Life has a jackpot of \$25,000 per year for life, with a 19 state average of \$.06 in weekly per capita sales. These games both offer a nice top prize, but the second tier prizes are equally enticing. There is also the benefit of sharing what is learned across jurisdictions - if one state develops a marketing plan that works - it is shared among all states offering the game, which helps to grow the return on investment.

Going online to offer computer/mobile device games is another trend, allowing players to create an account and select the type of games they like to play whenever they want.

The digital journey doesn't have to start with online gaming. It can start with a marketing website, and then add the convenience of a mobile app that can keep a player's favorite numbers on their phone instead of carrying around play slips. It's all about making the Lottery more convenient for players.

Commissioner Estes wondered how to be sure a minor isn't playing illegally online. Sullivan said that through social security numbers and online checks the age of the player could be verified. With anonymous play there is still a way to verify age and state of residence. There is a high level of security to ensure players are of age and live within the jurisdiction in which they're playing.

Secretary Gerlach asked if there was a requirement to offer both Powerball and Mega Millions. Lingle answered that there is a requirement to participate in Powerball because of an affiliation with MUSL, but not Mega Millions. Sullivan added that Mega Millions did a matrix change, but that's really the only change it has made and the odds of winning are still long. Groups overseeing the games need to plan long-term structures of these games and work together.

SCIENTIFIC GAMES (SGI)

Dennis Miller of Scientific Games International reported on the following:

TRENDS

Mobile is the consumer platform of choice, with a 76% rise in mobile use, going from 12% of time spent on mobile to 55%. Companies that embrace mobile will be miles ahead. A ticket checker on the phone that can also scan tickets to enter second chance drawings is a nice convenience to players.

Miller also stressed the importance of player acquisition by providing a personal experience and giving players what they need, when they need it. Offering targeted promotions, loyalty programs, and iLottery will also provide the Lottery with a player database to improve business intelligence and analytics.

eGames or interactive games including for-fun, second-chance, and eInstant, offer casual and social mechanics. The Pennsylvania Lottery introduced a Holiday Cheer interactive game and promotion. They had nearly 7 million game tickets entered; 31% of the tickets were scanned via the mobile app. The interactive game was played more than 1.3 million times and didn't take away from sales of instant tickets.

Skill-With-Reveal second chance games feature a skill component with leaderboards tied to a player's social identity and a bonus feature for awarding predetermined prizes.

Location based solutions allow for custom messages, product information, special offers and coupons, and loyalty and rewards. Beacon technology can extend engagement by sending out notifications when a player enters the store.

Mobile payments or a universal wallet will be important, offering one solution for purchase. These are tied to credit/bank accounts to offer ease of engagement, purchase, coupons, and rewards.

Gift cards are the most requested gift at holiday time. Gift cards expand distribution with limited overlap and can add 250,000 new retailers. They also increase visibility by offering a marketing presence in untapped retail styles and provide a turn-key solution with distribution, merchandising, and retailer recruitment all managed by Incomm.

With MobiPlay, payment is made at the terminal, the terminal generates a MobiPlay ticket, the player scans or enters the MobiPlay code with a mobile app, and outcomes are revealed on their mobile device. eInstant, draw and monitor games can be offered.

iLab or virtual reality (VR) is an emerging technology. VR is a potential megatrend platform for lotteries to engage players. It enables new types of content and games, engages new demographics, and extends traditional product lines.

INSTANT PRODUCT TRENDS

- High Price Point Games - generate the majority of growth
- Family Games - facilitate full promotion across price points
- Spotlight Games – buy a lot of one game and advertise it – huge game with huge call outs
- Launch Cycle Modifications – extending the time between launches and increasing game volumes have enabled games to remain on the market longer

INSTANT RECOMMENDATIONS

- Increase payouts on \$1 games by decreasing the chance of winning a smaller prize and increasing the chance of winning a \$10 to \$50 prize
- Differentiate higher price points, especially the \$10 and \$20 games and increase payouts to industry levels
- Increase the size of \$1 tickets
- Increase the quantity of tickets in games, particularly the \$2, \$3 and \$5
- Reduce the number of annual launches to 8 or 9 per year

DRAW PRODUCT TRENDS

- Number Games – New bet types and more frequent drawings grow sales
- Instant Win Draw Games – Demonstrated success with high payouts, larger top prizes, progressive jackpots, long game lifecycle, and sufficient product variety

- Monitor Games – Interactive capabilities can drive game play – view drawings online/mobile
- “Other” Draw Games – Hybrid draw games continue to be a focus. New playstyles and themes are prevalent in product category (bingo and tic tac toe)

DRAW GAME RECOMMENDATIONS

- Diversify draw game portfolio
- Instant Win – print and play – generated at the terminal – offers high payouts, larger top prizes, progressive jackpots, long game lifecycle, variety – similar payout to instant tickets
- Win For Life – continuously emphasize top prize of \$1,000 - \$7,000 per day for life
- Monitor games – like Keno and RaceTrax offer interactive capabilities and social opportunities– they play well with video lottery players

Break was taken at 3:10 p.m.

Meeting reconvened at 3:23 p.m.

NOVOMATIC

Brendan McCarthy of Novomatic Lottery Solutions reported on the following:

Novomatic Lottery Solutions has been operating since 1996 with internet gaming. McCarthy assured commissioners that online gaming wasn’t dangerous and that there are databases that know who is playing and can ensure they are old enough to play.

THE PLAYER JOURNEY TODAY

Many thought the internet would take over and retailers would go away, but retail is here to stay. The internet can enhance the retail experience without undermining it.

OMNI CHANNEL – Shoppers are becoming increasingly blind to the “channel” and expect a single experience centered on them that will enable them to do what they want when they want – buy online and pick up in store – get a prize from the retailer or have it put into their eWallet. OMNI Channel breaks down the barriers that used to exist between channels to bring great opportunities and benefits to everyone.

McCarthy urged the Lottery to know their players to serve them better. Players want a personal experience. Use data analytics to personalize marketing content and tactics. Agile lottery solutions and low experimentation cost will be key factors as lotteries explore ways to take advantage of this trend.

PRIVACY VERSUS PERSONALIZATION – Consumers don’t mind sharing information when they believe they are getting something of value in return, but there is a fine line between personalizing and being creepy.

APPS are the center piece of the player experience, allowing lotteries to talk to players in meaningful ways through the hub of peoples’ devices. Apps are required for iBeacons and other on premises technology (sending messages to players based on where they are at. For example at a retailer, they may get a message about a promotion at that location). The lottery can be using internet tools, but not offer game play online.

eINSTANT GAMES or online scratch tickets, allow the Lottery to leverage known brands by offering them via the internet (for fun or real money). They’re fast to get on the market, easy to reskin, and a proven solution.

REINVIGORATE RETAIL by getting Lottery into more types of retail. Think of retail as an experience in which the customer wagers with the retailer to make a bet that could win them the product they were going to purchase. Offer games relevant to the retailer and their consumer base. Retailers are focusing on experience and “value added” over online, rather than the actual product being sold.

McCarthy advised the Lottery to not be limited by technology but to embrace it. Delivering a new more personalized experience to players is the key to growth.

POLLARD BANKNOTE (PBN)

Jennifer Wankling of Pollard Banknote reported on the following:

Pollard Banknote is an instant ticket printer with over 100 years of experience. They are located in Canada and are 75% owned by the Pollard family and 25% on the stock exchange.

Wankling focused on the space between brick and mortar retailers and iLottery. The three goals she focused on were player acquisition, support for retail, and connection to the digital ecosystem.

THE CASHWORD STORY

Pollard Banknote has developed a successful Cashword app. First the player buys a ticket and plays it, then visits the website or opens the app to play again (play for fun without purchasing a ticket or play again online with additional chances to win). A 36% increase in sales of comparable tickets was seen after launching the online play option. There were over 22 million Cashword games played and over 30 million WebPlay games played. Out of an estimated 16,000 word apps, WebPlay games are top performers. Many people play these games for fun, but play for prizes can also be offered.

PLAYER ACQUISITION

Kansas' crossword game increased the rate of registration in their players club by 140%. In Vermont they're seeing 2x as many registrations for their players club from the Cashword game than any other instant ticket. These games are driving players to register for the players club so they can play the online games and earn chances to win.

Play for fun games attract new consumers and are effective tryvertising (try before you buy). In Michigan, two thirds of consumers who played for fun were more likely to buy tickets.

SUPPORTING RETAIL

Coupons can be used to drive players to retailers. Idaho does a monthly draw for 100 free Cashword tickets, driving consumers to retailers to collect winnings.

DIGITAL ECOSYSTEM

Vermont integrated their Cashword ticket directly into their second chance drawing program so when a player enters the code into the second chance site, it recognizes it as a Cashword ticket, and they are immediately whisked away to the interactive game, where they get a variable number of entries into the second chance drawing to win \$500 cash. In Michigan players can earn loyalty points through online play. They have awarded 240 million loyalty points since the program's implementation.

Pollard's "Space Between Products" are using digital technology to enhance, support, and grow retail Lottery products. They grow retail sales by acquiring new consumers, remaining relevant in the eyes of consumers, and engaging and retaining consumers.

Chair Turbiville commended the presentations as an excellent way to find out what direction the Lottery needs to go in the future.

Commissioner Estes asked if any of these ideas are things that the Lottery can adopt on its own or would the Lottery need Legislative approval. Lingle felt Lottery needed to develop a plan to look at interactive games. The Lottery will be looking to vendors to guide them, but playing on mobile devices is something we need to look into. Internet gaming is not allowed at this point, but the Lottery could grow its player base with play for fun games. These games can help determine what appeals to players with that information being used to gain revenue and expand the player base.

Secretary Gerlach commented that there were opportunities to grow in the instant market that wouldn't require legislation.

Commissioner Estes recognized the opportunity to grow retailer sales through mobile experiences.

Secretary Gerlach said instant and online sales were flat. Lottery needs to look at ways to improve, with internet as a longer term goal. He suggested using marketing research to find out what games will play well in South Dakota. McCarthy of Novomatic suggested building a mobile app first, because that is not selling online, but gives the players convenience and tools to promote instant games.

Chair Turbiville stated that he'd like to see a list of things that the Lottery Commission can do without going to the Legislature. He asked to have something put together for the next meeting.

Commissioner Estes wondered if it would be too quick to have something ready for Commissioners when the meeting reconvened in the morning.

Chair Turbiville asked presenters to present to the Commission a list of things South Dakota can do without legislation at the morning meeting on June 3. All presenters said they would have a list ready to present in the morning.

RECESS

Chairman Turbiville recessed the meeting at 4:06 p.m.

JUNE 3, 2016 – 8:30 a.m.

Chairman Turbiville called the June 3, 2016 meeting of the South Dakota Lottery Commission to order at 8:33 a.m.

MEMBERS PRESENT: Chuck Turbiville, Jim Putnam, Bob Hartford, Roger Novotny, Brent Dykstra, and Doyle Estes were present.

SUPPORT STAFF PRESENT: Norm Lingle, Clark Hepper, Joe Willingham, Sherry Lauseng, Kelly Thompson, Secretary Andy Gerlach, Deputy Secretary David Wiest, Andrew Fergel, and Jennifer Baker.

VENDOR RECOMENDATIONS

SGI

Dennis Miller of Scientific Games International (SGI) reported on the following:

- MOBILE APP – offers ticket checking capabilities, scanning entry for the Play It Again program, retailer locators, and other functionalities
- PLAYER ACQUISITION
- GIFT CARDS
- ONLINE PLAY FOR FUN GAMES – test the waters, won't gain revenue, but will gain good will with players
- BEACON TECHNOLOGY – sends you a message about a special or a coupon as soon as you walk into a retailer
- MOBIPLAY – possibly, but Legislators may want to have some control (Administrative Rule)
- INSTANT WIN GAMES - like Win For Life and Keno (Administrative Rule)

Commissioner Estes asked what the Commission needed to do to authorize some of these recommendations. Lingle responded that draw games, like Lucky For Life or Win 4 Life, would need to go through the Administrative Rules process as would Keno. Lingle said he'd need to take a look at the Administrative Rules for MobiPlay, because rather than claiming with a paper ticket, players can claim from a mobile phone. Lingle felt that Beacon technology, gift cards, player acquisition, and a mobile phone app were all things that could be done now without Administrative Rule or legislation.

Commissioner Estes said he's impatient and didn't want to wait until September to implement some of these recommendations. Lingle responded that once the contract negotiations for the RFPs are done, Lottery staff can start implementing some of these options. Negotiations for RFPs should be done in July.

Commissioner Hartford felt they should listen to all presentations, come up with master list, and then worry about when to begin implementation.

Secretary Gerlach asked about internet gaming. He wondered what exactly it is and where it's at on an international level. SGI responded that currently a few states are in full blown internet ticket mode. Georgia, Michigan, North Carolina, and Kentucky are lotteries that are doing internet gaming in the United States. Internet gaming has been done in Europe for over a decade and is only 10% of their income; it's a niche market that won't take the place of current products.

Secretary Gerlach stated that legislation would be needed to start internet gaming and not many states are doing it. Sullivan of IGT told the Commissioners about how Minnesota was the first to take a chance on internet gaming, but their legislature shut them down. He recommended baby steps: start with play for fun games, progress to a point where players are engaged online, then introduce true internet gaming where players can interact and make wagers. It is prohibited in South Dakota, with a grey interpretation of the legislation which provides the Lottery Commission with some ability to determine what should and should not be legal.

McCarthy of Novomatic believed it would be good to think in terms of iGaming in the future, because that's where lotteries are headed.

Commissioner Dykstra mentioned that there was a lot of information with many options. He felt Lottery needed to ease into implementation, make it cost effective, and determine what will impact revenue most then prioritize things and start to discuss the big picture.

Director Lingle concurred with Commissioner Dykstra. He felt it was critical to develop a path to get to internet gaming cautiously and take the proper steps to get there.

IGT

Nate Sullivan, Senior Manager of US Regional Marketing at IGT reported on the following:

Sullivan started out by emphasizing the importance of having a long term plan, but wanted to give Commissioners an idea of what could be done in the immediate future to help the South Dakota Lottery.

- EXPAND ONLINE PORTFOLIO
 - Joining *Lucky For Life* game could be done quickly at minimal risk with immediate results
- INSTANT WIN GAMES
 - Keno To Go first, then Keno at retailers on a monitor
 - A 10/20 of 80 game
 - Casinos offer it, but it doesn't compete with video lottery sales
 - Players choose their odds by selecting up to 10 numbers of 20 drawn from a pool of 80, to win larger prizes, players pick fewer numbers (balls)
 - 4 minutes between draws to 1 draw a day
 - Wide area network
 - Successful nearly everywhere it's been implemented
- EXTEND THE NUMBER OF DRAWS FOR DAKOTA CASH
- MOBILE APP
 - Needs to be on the immediate road map even though it may not draw actual sales
 - Creates engagement with players
 - Play for fun games are a great way to engage new players

NOVOMATIC

Brendan McCarthy of Novomatic Lottery Solutions reported on the following:

- OMNI CHANNEL – Hold off until next system update
- MOBILE APP
 - Geolocation
 - Send messages
 - Scan tickets for second chance drawings
 - Check tickets to see if it's a winner
 - Keep adding features to keep it fresh
- PLAYER ACQUISITION
 - Registering and acquiring players is key
 - Registered players spend more and are more engaged
- DIGITAL MARKETING MANAGER
 - Manage and curate a digital marketing strategy
 - Converse with players and keep them engaged
- E INSTANT TICKET
 - Play for Fun on website
- RETAIL ALTERNATIVE GAMES (next system)
- DAILY PICK 3 AND 4 GAMES
 - Powerball and Mega Million's large matrices are not emotionally engaging
 - More emotional resonance with these games because players are picking their favorite numbers
 - Makes players not want to miss a draw because their favorite numbers might get picked
- PROBABILITY GAMES
 - Can be done easily on the internet
 - Puzzle games, extended play games, etc.

POLLARD BANKNOTE

Julin Shaw of Pollard Banknote reported on the following:

- INTERACTIVE GAMES
 - Cashword app very successful
 - Value added experience for players
 - Play for fun to engage players and support retail merchandise
- LOYALTY PROGRAM
 - Point based
 - Free to play games
 - Gives Lottery a marketing database
- iLOTTERY
 - Long-term
 - Legislative approval needed
- DIGITAL MARKETING MANAGER
 - Important to have someone dedicated to digital marketing

McCarthy of Novomatic stated that Michigan's retail sales increased when they introduced iGaming, saying it drove revenue on all levels.

Miller of SGI mentioned that stores saw higher traffic inside after adding Play at the Pump games in Minnesota.

Lingle said he's looking forward to seeing what other jurisdictions are doing, and deciding which options will work in South Dakota. He proposed having another meeting before Sept. 22 to approve contracts and move forward with some of these recommendations.

Chair Turbiville thought there were a lot of great suggestions and he appreciated everything that was brought to the Commission. He felt Lottery staff needed to get started on this and have information prepared when the Commission meets again around mid-July. He would like staff to bring a list of goals for the immediate future.

Commissioner Putnam mentioned that it takes time to negotiate contracts. He wanted the Lottery to take the time to make the right decisions and felt the Commission should work on contracts in one meeting and meet again to discuss internet gaming plans.

Commissioner Dykstra suggested looking at games that are already available, saying there's a lot of information out there that can be used to make decisions and prioritize goals.

Commissioner Novotny wondered if all of these ideas would need the Commission's approval. Lingle replied that an app is for sure in the Lottery's future, but it takes time to develop one. In the instant ticket RFP, the Lottery inquired about apps, so Lingle suggested waiting to see what comes out of those negotiations.

Commissioner Estes asked if a digital media manager was needed to get players more engaged. Lingle said that Kelly Thompson and Jen Baker are doing a good job with social media marketing, but it could develop into a full time position.

Lingle mentioned that the Lottery is working on GIS and will use the technology to post locations of all retailers on a map that can detect where a player is and let them know where the nearest lottery retailer is.

Commissioner Estes stated that South Dakota was the leader in video lottery, but has become a follower when it comes to digital/internet gaming.

Commissioner Putnam mentioned that South Dakotans tend to be gun shy. The Lottery has been fighting to pass legislation on video lottery, but needs to start moving on some other goals.

Secretary Gerlach felt the video lottery strategic plan was solid, but there was a need to work on promoting and updating other sections of the Lottery.

Chair Turbiville asked Lottery staff to come back to the Commissioners with goals and objectives for internet marketing and gaming.

Lingle thanked the vendors for their good input and for coming to South Dakota.

ADJOURN

Commissioner Turbiville moved to adjourn the meeting. Commissioner Hartford seconded. Motion carried. Chairman Turbiville adjourned the meeting at 9:31 a.m.